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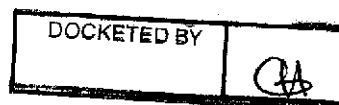
July 25, 2006

AZ CORP COMMISSION
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Arizona Corporation Commission
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JUL 25 2006

Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Mike Gleason



Re: Possible Special Open Meeting to address APS' improved financial condition;
Docket No. E-01345A-05-0816.

Dear Colleagues:

As you know, APS' parent Company, Pinnacle West Corp., recently announced dramatically improved quarterly earnings.¹ This summer's improved financial numbers over last summer, according to APS, were the result of a number of factors, including higher than average temperatures, increased retail sales, tax credits from the 1990s, and real estate gains. Despite these gains, APS has indicated that it has no plans to reduce its request for a permanent rate increase,² and has so far not notified the Commission that it has established a Rate Stabilization Fund as the Commission strongly urged in a recent Order.

I believe APS' improved financial condition warrants closer scrutiny by the Commission prior to the commencement of the APS General Rate Case. In particular, I would like the Commissioners to quickly schedule a Special Open Meeting to review APS' current financial condition, as well as projections for the Company's earnings for the rest of 2006. This Open Meeting should include a discussion of the impact of the Company's recent surge in earnings on its bond ratings, an issue that was of significant concern during the 2006 Emergency Rate Case.

A full discussion of these matters is relatively urgent, as Staff and other parties are preparing testimony in the APS General Rate Case, due on August 18. I am not implying that the Commission will be taking testimony at this proposed Special Open Meeting. On the other hand, I believe all of us agree that Commissioners have a duty to stay informed of key issues pertaining to any public utility, regardless of pending matters the utility may (or may not) have at the Commission. From my perspective, waiting until the scheduled rate case hearing to look more deeply into the matter of APS' current financial situation is not appropriate. I believe that the Parties, the Commissioners and the public should have information about APS' improved financial picture *before* the rate case hearing begins.

¹ Pinnacle West reported consolidated net income of \$112 million between April and June. Income from the same quarter last year was \$26.7 million.

² See Arizona Republic, July 23, 2006 "Parent of APS posts 320% rise in profits".

Additionally, in light of the Company's second quarter profits, I would like APS to report to the Commission on its progress in establishing the Rate Stabilization Fund that the Commission strongly urged them to create when granting the Company interim rate relief in Decision No. 68685. In recent discussions with Salt River Project (SRP), I was told that SRP continues to support its rate stabilization fund with monies saved from (1) recent property tax reductions enacted by the Legislature (\$10 million in 2006); (2) Operations and Maintenance savings; and (3) revenues from wholesale electricity sales.

It would be reasonable to assume that APS may have realized some recent savings similar to those deposited by SRP in its Rate Stabilization Fund, including the \$10 million it received from favorable tax credits related to contracts signed in the 1990s. Further, it seems reasonable to conclude that APS is also a likely beneficiary of the recently enacted property tax changes. A public meeting would allow APS the opportunity to explain whether it has taken steps to set aside some of these funds in a Rate Stabilization Fund, and which sources of funds it has chosen to tap for this purpose.³

The obvious question at issue is whether APS customers, who have paid additional dollars for power in recent months, should now be in a position to benefit from APS' improved finances. I believe it is a question that deserves a thorough and timely answer.

Thank you for your consideration of this matter. I look forward to raising it at the next Commission Staff Meeting.

Sincerely,



Kris Mayes
Commissioner

Cc: Brian McNeil
Ernest Johnson
Heather Murphy
Docket

³ In Decision No. 68685 the Commission urged APS to establish a Rate Stabilization Fund and to look at maintaining it with savings from cuts to the Company's sizeable advertising budget, from sports sponsorships cutbacks or from executive bonuses, among other possibilities.